

The Bond of life

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Annual Report 2000



**Vam Organic
Chemicals Limited**

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The Bond of life



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It's the hand that grips divergent businesses.
It's the relationship we share with our partners.

It's the fertiliser that fills the bowl of hunger.
It's the chemistry that links life with living.

It's the thread that weaves the fabric of nature.
It's the adhesive that binds the destiny of products.

It's the bond that holds this universe together.
It's the thought that staples this annual report.



Dear Fellow Stakeholders,

During the year 1999-2000 we were able to successfully consolidate our core organic intermediates business by increasing our manufacturing capacities multifold to become the leading domestic player in Specialty Chemicals. The year saw us becoming a vibrant organization with a large international presence, with roots anchored in a strong home base.

In this journey to the future, your company has emerged as a strongly integrated organization and has succeeded in becoming:-

- A significant global player in picoline, pyridine and pyridine derivatives, customizing intermediates to the requirements of global brands of pharmaceuticals and agrochemicals.
- The largest producer of Acetyls including Acetic Anhydride in India.
- The leading Indian producer of VAM (Vinyl Acetate Monomer).
- The largest base of industrial alcohol distillation in India which is the solid foundation for our complex intermediate chemistry.
- A leading exporter of Vinyl Pyridine Latex to multinational manufacturers of tyres.

This has been made possible due to our continuous investment in world-class manufacturing plants, identification, development and continuous benchmarking of process efficiencies with our team of 100 scientists and skilled human resources that make them happen.

The strategic initiative of acquisition of the erstwhile Polychem unit at Nira near Pune has borne fruition with your company now having a strategic presence in two of the highest sugar producing states of Maharashtra & UP and with complete forward integration to downstream derivatives and finished products based on Acetyls and Vinyl Acetate. The acquisition has been successfully amalgamated and expanded multifold. The Nira facility is now operating to full capacity and there have been significant investments in balancing equipment at both Gajraula (UP) and Nira (Maharashtra) manufacturing facilities and improvement of processes. The transfer of efficient processes from our Gajraula plant to Nira has contributed in considerable operational efficiency and operational improvement for best practices leading to efficient manufacturing.

A new manufacturing plant with the largest capacity in India for Vinyl Pyridine Latex, has now been commissioned at Savli near Vadodra, Gujarat, in the same complex as the Choline Feed Additive manufacturing facility.

These major expansions, based on our integration strategy, have now consolidated our national leadership position and we are poised to leveraging our Indian learning into becoming an international strategic and global player in Pyridines.

Our drive for International business is built on a well planned strategy for our pyridines and adhesives range with a vision that engulfs emerging and advanced markets. Whilst our products are exported to overseas markets, we have implemented our plans and worked ahead so that real accruals of an international organization can occur with a presence in major markets.

Message to the Shareholders

In 1999-2000, our International Business achieved the following milestones: -

- *Exports to over 25 countries.*
- *38% growth in export turnover.*
- *USA wholly owned subsidiary was fully operationalized.*
- *Representative office in China.*

In this year our USA and China offices have helped in building the local base and in the coming year we would be shortly opening office in Western Europe.

In response to the changing times, we are continuously striving to make our company as market driven and agile as possible. To do so, we are doing our utmost to create an organizational ambience where talent can bloom. Unleashing people power in a planned manner through a focus on their growth, development and learning is our priority. Our thrust is on developing our company's intellectual capital. Infusion of fresh blood and talent at all levels, coupled with the creation of thought leaders has gained momentum.

We are continuously moving towards becoming a knowledge company and have considerably increased our investment in R&D in the labs as well as in intellectual capital in each of our business sectors. In the past year we have created a wired organization, which will accentuate the quality of communication flow throughout the organization. We are now e-enabling our businesses to develop competitive advantage in the global market-place.

With increased emphasis on research & development, human resource development, our commitment to corporate governance and efforts to leverage our company into becoming one seamless organization, we will be pro-actively contributing to our singular aim of creating value for our shareholders in the 21st century and beyond.

Thank you,

Yours sincerely,



S.S. Bhartia
(Chairman & Managing Director)



H.S. Bhartia
(Co-Chairman & Managing Director)

New Delhi, June 29, 2000



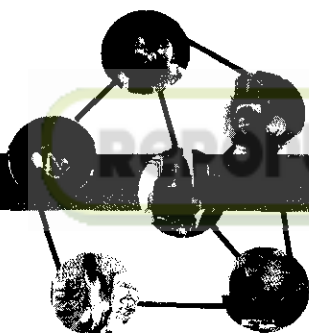
Management Review

The year 1999-2000 was marked by a significant growth of 28% in sales turnover and further consolidation of our core businesses. VOCL makes raw material for many large and medium sized companies who make reputed consumer brands. Many of the final consumers may not be familiar with our company name but probably are using popular brands wherein VOCL has contributed to make better quality products for everyday life.

VOCL is engaged in three business sectors. These are –

- I. Organic Speciality and Fine Chemicals.
- II. Performance Chemicals.
- III. Agribusiness.

These business sectors were internally organised into strategic business units to further focus on upgrading customer servicing and reach with internal accountability consequent to the in-depth review of our business portfolio with facilitation from McKinsey & Co.. The business units are now evaluated against stringent value creation criteria and we are increasingly moving into customer knowledge based product portfolios, which would add shareholder value on a sustainable basis.



The bond of linkages: Organic Intermediates

Our acetyls are used in polyester fabrics and polymer made by companies like Reliance, MCC PTA...

The company's largest business reported a major sales volume growth of 23% and sales value growth of 35%. The company has embarked upon 4 strategic initiatives in this sector :

- Maximum utilization of existing assets through increased productivity and de-bottlenecking of existing plants.
- Cost management through improved supply chain and better efficiency in manufacturing operations.
- Increased global presence of Specialty and Fine chemicals through opening new market and extending presence in existing market.
- Value addition in existing products.

This business sector comprises Acetyls & Monomer, Specialty and Fine chemicals.

The bond of togetherness: Speciality Chemicals

Our adhesives like Vamicol and wood finishes like Charmwood are used in furniture...



Acetyls and Monomer

VOCL has strongly integrated manufacturing facilities for Acetyls & Monomer at Gajraula (UP) and Nira (Maharashtra). The products of this business include Acetic Acid, Acetic Anhydride, Acetaldehyde, Butyl Acetate, Ethyl Acetate, Ethyl alcohol, Extra Neutral Alcohol (ENA) and Vinyl Acetate Monomer.

The highlight of the business has been successful acquisition and integration of Nira facilities and de-bottlenecking and rationalization of Acetaldehyde and Acetic Acid capacities. Major initiatives planned during the current year 2000-2001 include de-bottlenecking of VAM capacity and further de-bottlenecking of Acetaldehyde capacity.

The profitability of business has been under pressure due to lower world prices reflecting in lower sales realization and increased raw material costs. During the year 2000-2001, prices of the products have improved and the company profitability is likely to show considerable improvement.

VOCL is India's largest manufacturer of Acetyls & Vinyl Acetate Monomer with a leading market share in most of its product range. Almost all the products, apart from being an important input for products of the division like VAM and Ethyl Acetate, are also an important raw material for some of the downstream products of our Performance Chemicals Division and Specialty Products Division.

The bond of trust: Fine Chemicals

Our ingredients go into chewing gums made by Wrigleys, Perfetti, Lotte...



Pyridine, Picoline and their derivatives

The products in this sector include Pyridine and Beta Picoline, Alpha Picoline & Gamma Picoline and their derivatives such as Cyanopyridine and Pyridine Hydrobromide. Fine Chemicals include products like 3,5 Lutidine, 2,3 Lutidine, 2,6 Lutidine, 2,3,5 Collidine, Triethyl Phosphate, and many other fine chemicals. All these products are extensively used as intermediates in agrochemical and pharmaceutical industries.

VOCL has become one of the three largest manufacturers of these products in the world. The global market presence of the company has made this business its highest export revenue earner. Highlights of this business sector have been successful acceptance of Pyridine, Picoline and their derivatives by several multinational and leading domestic agrochemical and pharmaceutical companies.

During the current year, Company proposes to debottleneck capacity of Pyridine and Picolines, to reduce cost of production and improve process conditions. Our extensive research and development would result in addition of some more value added products during the current year. Our exports of products would show considerable improvement, resulting in higher contribution.



Our performance chemicals are used in paints, coatings and polymer emulsions of ICI, Berger, Goodlass Nerolac...

Sales of the performance chemicals sector is up by 29% as compared to last year. The various businesses of this sector include Polymers, Resins and their formulations, ethylene oxide and methylamine derivatives and animal health products.

The main business drivers in this sector have been :

Increased application support to the customers.

Reducing lead time in launching new and improved products through extensive knowledge of the market place i.e. customers and extensive Application Research and Development efforts.

Cost reduction through improved Supply Chain.

Polymers, Resins and their formulations

Sales of this business grew by 6% as compared to last year. Latex unit was merged with the company from October 31st, resulting in only five months sale being included in the company's operation.

This sector includes business such as emulsion and its formulation for paint industry, textile coatings such as printing, flocking, finishing, non-woven binders, paper conversion products like pressure sensitive laminating & packaging, cyanoacrylate monomer and adhesives, solid polyvinyl acetate polymers for chewing gum, adhesives for flexible packaging, adhesive for woodworking and footwear industry, wood finishes and stains for furniture industry and liquid carbon dioxide for beverages and engineering industry. Our reputed brands in polymers, resins, adhesives and wood finishes are *Vamulsion*, *Vamisol*, *Vamtex*, *Vamitherm*, *Vamithane*, *Vamipol*, *Vamicol*, *Shakticol*, *Vambond*, *Vamigum*, *Superglue 2001*, *Charmwood*, *Woody* etc.



V.P. Latex: The bond with a grip

Apollo, JK, Ceat and a host of other tyre giants use *Encord* product for making better and long-lasting tyres...

Latex division offers products like Vinyl Pyridine latex, Styrene and Butadiene latex for the tyre industry (as *Encord* brand). Several types of products are offered to the above industries such as Homopolymers, Co-polymers, Ter polymers of Vinyl Acetate, Vinyl Versatate, Acrylics, Styrene, Butadiene, Vinyl Pyridine and others like Polyurethane, Chloroprene Rubber based, Hotmelts etc.

Achievements of the year have been addition of many new products and setting up of the new VP Latex facility at Savli, Gujarat, which has been commissioned in July 2000. New Polyurethane adhesive plant for flexible packaging was started during the year at Gajraula and was very well accepted in the market. New facilities for liquid carbon dioxide were commissioned in June 2000 at Nira plant.

Ethylene oxide, Methylamine derivatives and Animal Health Products

Operations of this business unit were merged with the company on 22nd October 1999. This unit is located at Savli (near Vadodra), Gujarat.

The unit manufactures a wide range of Ethylene Oxide and Methylamine derivatives such as Choline Chloride and Choline Dichloride for feed additives and Ethoxylates for textile and agrochemical industries. Animal Health products include premixes of Vitamins, Trace minerals and their combinations marketed under the brand name of *Anichol* and *Brolay*.

Despite challenging market conditions and price pressures from international competition, animal health products have maintained their leading share in the domestic market.

The Indian market for animal feed additives and choline di-chloride is limited at present. The quality of the products has been well received in the international market, but the company has achieved a limited success in the efforts to export these products due to weakening demand and excess capacity in the global market. The prices of raw material ethylene oxide increased during the year which the company could not pass on to the consumers.

During the current year, the company hopes to achieve better results due to increased sale of animal health products and increased exports in Asian market where realization has been comparatively better due to lower freight rates.

The green bond: Agribusiness

The company manufactures fertiliser, organic manure and crop protection chemicals for the farming community....



The division's sales grew by 22% as compared to last year but the profitability was under pressure due to uncertain fertilizer subsidy policy of Govt. of India. The main products of this sector are Single Super Phosphate (SSP), Sulphuric Acid and formulated Pesticides. During the year, the company launched an eco-friendly organic manure which is now marketed as a product extension of its popular *Ramban* fertilizer brand, using the sludge from waste treatment plant. The product was very well received by the farmers. New pesticide formulations were also launched. Traded products of the division included Di Ammonium Phosphate (DAP).

The division has been making efforts to launch popular pesticide formulations by forming marketing alliances with pesticide manufacturers of repute.



Research & Development

The dominant share of our revenues, for a considerable period of time, will come from intermediate chemicals that we supply and customize for the pharmaceutical, agrochemical, polymers, paint & tyre industry. It is fundamentally clear that for sustained growth as a reliable partner in these industries, we need to continuously innovate and be driven by knowledge. We have increasingly invested in R&D labs for each of our product range and are increasing the percentage of investment in R&D from each of our business sectors. We are constantly investing in diversity of skill in a competent team of scientists who have continuously innovated to introduce new quality products and have a concerted thrust in achieving more operational efficiencies in processes and driving down cost of production, optimizing use of raw material and in cutting production cycles to minimum.

Information Technology

As we have put an ERP application in place, we will now focus on re-engineering around the internet and put in place business solutions to face challenges. We will explore selective partnering through business venturing to create sustainable long term value in the future. We are understanding and expediting the efficiency of our supply chain and endeavoring to optimize our customer relationships through enablement of e-business.

Safety, Health and Environment (SHE)

Environment, Health and Safety continue to be priority areas in the company's operations. During the year, at Gajraula, a secondary effluent treatment plant was installed and work was initiated on an additional plant to provide buffer capacity. A state-of-the-art Sludge Dewatering plant, a pioneering step amongst distilleries in India, is being installed. Efforts are on to utilize treated distillery effluent for crop-irrigation. A modern incineration system with waste heat recovery boiler to take care of non-biodegradable effluents is ready for commissioning. At Nira, work on a treatment plant is in advanced stage of completion to treat effluents from chemical units. In the area of health and safety, constant vigil is maintained to ensure a safe and healthy work environment.



OBJECTIVES OF THE CORPORATE GOVERNANCE

Globalisation has increased the competition in which the Corporate World operates, therefore, it has become increasingly important for the management to make the corporate business more transparent and institutionally sound. Corporate Governance is a set of practices to be adopted by the corporate for achieving its objectives under the legal, regulatory and institutional environment. Objective of the Management in defining the Code of Corporate Governance is to make the business practices adopted by the company more transparent for the stakeholders of the company.

COMPOSITION OF THE BOARD

The Board of the Company is represented by Mr. S.S. Bhartia, Chairman & Managing Director, Mr. H.S. Bhartia, Co-Chairman & Managing Director. Mr. Bodhishwar Rai, Mr. J.B. Dadachanji, Mr. Arabinda Ray, Mr. S. Sarkar (Nominee Director of UTI), Mr. S.N. Singh, Executive Director and Mr. Shyam Bang, Executive Director. Mr. S.S. Bhartia and Mr. H.S. Bhartia are the promoter directors of the company and are related.

Mr. S.S. Bhartia, Mr. H.S. Bhartia, Mr. S.N. Singh and Mr. Shyam Bang are entrusted with day-to-day Management of the company subject to superintendence, direction and control of the Board of Directors. Mr. S.S. Bhartia, Chairman & Managing Director is a Cost Accountant. He joined the Board of Directors of the Company in the year 1978 and was appointed as Managing Director of the Company in the year 1981. In the year 1997 he was appointed as Vice Chairman and Managing Director. Thereafter he was appointed as Chairman & Managing Director in the year 1999. His present tenure as Chairman & Managing Director is till year 2002.

Mr. H.S. Bhartia, Co-Chairman & Managing Director is a Chemical Engineer. Mr. H.S. Bhartia joined the Board as Whole-time Director in the year 1983. In the year 1997 he was appointed as Vice Chairman & Managing Director. Thereafter he was appointed as Co-Chairman and Managing Director in the year 1999. His present tenure is till 2002.

Mr. S.N. Singh, is a Chemical Engineer and has worked in the company since 1981. Mr. Singh has served the company in various capacities since 1981 and was appointed as Executive Director with effect from 1st November 1998 for a period of five years. Mr. S.N. Singh is Occupier for Gajraula & Nira Plants.

Mr. Shyam Bang is also a Chemical Engineer and has worked in the Company since 1982 in various capacities and was appointed as Executive Director with effect from 1st November 1998 for a period of five years. Mr. Shyam Bang is Occupier of Baroda plant.

Mr. J. B. Dadachanji is a solicitor with 57 years of experience. He joined the Board of the Company in the year 1984 as Director. Mr. Arabinda Ray is a Professional Corporate Executive with 50 years of experience. Mr. Ray joined the Board of the Company in 1981 as Director. Mr. Bodhishwar Rai is an eminent Banker and has occupied important positions with State Bank of India in the country and abroad. He retired as Chairman and Managing Director of Allahabad Bank in 1994. Earlier he was Managing Director of SBI Mutual Fund. Mr. B. Rai joined the Board of the company in the year 1995 as State Bank of India's Nominee and later became its Additional Director in the year 1999.

Mr. J.B. Dadachanji, Mr. Arabinda Ray and Mr. Bodhishwar Rai are independent Directors.

Appointment of Directors is done in Annual General Meeting. One third of Directors of the Company retire by rotation and are re-appointed, if eligible. Thus the reappointment of directors will be done in the years mentioned in brackets against their names. Mr. S.S. Bhartia (2002), Mr. H.S. Bhartia (2001), Mr. S.N. Singh (2003), Mr. J.B. Dadachanji (2003), Mr. Shyam Bang (2002) and Mr. Arabinda Ray (2002). Mr. S. Sarkar being nominee of the UTI is not liable to retire by rotation. Mr. Bodhishwar Rai was appointed as Additional Director in October, 1999 and his appointment will be approved by the Shareholders in ensuing Annual General Meeting. Renewal of appointment of Mr. J.B. Dadachanji and Mr. S.N. Singh, directors will be taken up at the ensuing Annual General Meeting.

Remuneration to Directors is approved by the Shareholders in General Meeting. The Board in terms of authority given to it by the Shareholders approves sitting fee to the Directors for attending Board and Committee Meeting.